BUSINESS OF CONSULTING

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Ways to profit from 'new normal'

After improvement in 2010, uncertainty has returned to the market for consulting services, says **Andrew Hill**

As they pore over volatile economic forecasts for the years ahead, consulting firms, along with their clients, are seeking an answer to the crucial question: Is there money in the "new normal" and, if so, how and where can it be made?

The answer to the first part of the question is a straight "yes".

The recession brought on by the acute financial crisis of 2008 also ushered in one of the toughest years in the sector's history, as clients – particularly in developed countries – reached for the scissors, to shorten consultants' mandates, trim costs, or cut or defer contracts.

In the UK, for example, 2009 was the first year in which the consulting sector's revenues shrank.

But 2010 marked a comeback, precisely in some of the sectors – notably banking and financial services – that had pulled in their horns in the depths of the crisis.

Most of the top 10 global consulting practices showed strong growth in revenues in 2009-10, with PwC, KPMG and McKinsey up 9 or 10 per cent, as shown by figures from Kennedy Consulting Research & Advisory, a US-based industry analysis group.

At the same time, the crisis naturally forced changes on the multinational consultancies. They are seeking more revenue from fast-growing economies in Asia, Latin America and elsewhere; refocusing their work on the private sector in countries where government work has become scarcer; and improving the services provided.

What is clear is that there is no scope for complacency and whether consultants prosper or merely tread water will depend on how successfully they answer the second part of the opening question.

As recently as June this year, some consultants were hailing a "post-crisis environment". But as the implications of confusion in the eurozone have spread beyond European borders, it has become clear this was a premature judgment.

Meanwhile, external regulation is back on the agenda, thanks to surprisingly radical proposals from Michel Barnier, European internal market commissioner, to ban big audit firms from offering consultancy services.

The official line from many consultants is that clients are again planning for expansion.

Customers are investing and planning for growth "for the first time since 2008 . . . even within the context of uncertainty created by the eurozone crisis", comments Andrew Hooke, chief operating officer of PA Consulting.

But the type of mandate available has permanently altered. Paul Gronwall, a senior analyst at Kennedy, says that among consultants and their customers "there is a growing expectation that economic cycles are shortening: the ups and downs are going to happen much quicker, so nobody's going to put in place a five-year plan, because they're lucky if they can see a year or two [ahead]".

Many hands . . . uncertainty means the upsurge in demand for advice about how best to cut costs is unlikely to recede Dreamstime

Largest 10 global consulting practices*

2010 rank	Firm	2009-10 growth (%)
1	Deloitte	7.8
2	PwC	10.9
3	Ernst & Young	5.2
4	KPMG	8.3
5	Accenture	6.8
6	IBM	5.2
7	McKinsey & Company	8.8
8	Marsh & McLennan Companies**	3.9
9	Booz Allen Hamilton	5.2
10	Towers Watson	-3.8***

Source: Kennedy Consulting Research & Advisory

* Based on revenues for management, financial, and IT consulting
** Owns Mercer and Oliver Wyman
*** Reflects merger between Towers Perrin and Watson Wyatt

Alan Leaman, chief executive of the UK's Management Consultancies Association, draws a comparison between the survey of its members in June 2010, when, despite the grim period they had just endured, they were bright about the future, and the association's most recent study of firms.

"Now," he says, "the numbers for the first half of 2011 look better than expected, but [members] are feeling a lot more nervous about the next six months."

The uncertainty means the upsurge in demand for advice about how best to cut costs is unlikely to recede.

According to a recent survey of UK and global buyers of consultancy services, by Sourceforconsulting.com, nearly 40 per cent expect to spend more on advice about improving their operational efficiency over the next six months.

However, the efficiency drive may be combined with an uptick in demand for strategy advice. Raju Patel of Fulcrium, a specialist consultancy, acknowledging, that, in the medium-term, pure strategy is "a shrinking market", says that "companies that have labelled themselves as strategy organisations have renewed or remodelled themselves and taken on market sectors they would not previously have considered".

But it is usually at economic inflection-points that corporate customers look for strategy advice, often to validate tough decisions they may have to make anyway.

The difference in this cycle, industry observers and insiders agree, is that many companies now insist wise strategic counsel must come firmly attached to practical advice about how to implement it.

Here, the bigger consultancies, which can offer multiple

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Views diverge on how to achieve execution

Strategy

It is not just generating the right concept, but making it happen, writes Fiona Czerniawska

Didier Bonnet, global practice leader at Capgemini Consulting, has lost count of the number of times over the past few years he has heard people say strategy consulting is dead. "If anything," he says, "economic uncertainty has gone a long way to demonstrating how much value it still has."

The past 12 months bear this out.

Boston Consulting Group has seen growth of more than 10 per cent in Asia and the Americas, although the market in Europe has been slower.

Bain, the US consultancy, says it has had a record year, with strong demand across most sectors, but especially in industry, natural resources, retail and healthcare.

And while the situation in financial services, which accounts for some 30 per cent of all strategy consulting, has been marked by the volatility of demand from banks, the overriding impression is one of a fragmenting, rather than declining, market.

"The market is dividing," says Hans-Paul Bürkner, BCG's president and chief executive. "Some companies are taking advantage of their strengths to globalise and invest, while others are struggling and therefore focused on divestments and driving down costs. There isn't a common pattern."

Globalisation is just one of the reasons why strategy is taking on a more practical shape.

"Western companies wanting to enter an emerging market face low-cost local competitors, so 'strategy' here can involve rethinking the business model and cost base," explains Mark Spelman, Accenture's global head of strategy. "They need a pragmatic view of what it takes to grow."

All this creates opportunities, and most strategy consultants are cautiously optimistic about the coming year. "Underlying demand is strong," says Steve Ellis, worldwide managing director at Bain, "and our momentum going into 2012 is good."

It is a far cry from the dark days of the recession, which saw midsized strategy firms lose up to a third of their revenues, and mergers between the bigger ones (Booz & Company and AT Kearney; Roland Berger Strategy Consultants and Deloitte) mooted, and then abandoned.

But beneath the steely, well polished surface of the industry a ruthless tug-of-war is taking place; one in which the knot in the middle of the rope is nothing less than the nature of strategy itself – should it be "pure", or should it come with execution, too?

The idea that strategy needs to be executed is not new. Much, however, depends on the nature of the link between the two, and what is meant by the term implementation.

"Organisations are under pressure to deliver quickly. They now expect to de-risk a strategy by testing it as they go," says Mr Bonnet of Capgemini.

On one end of the rope, are the traditional strategy firms. These have succeeded in pulling the rope towards them by arguing that strategy and execution have to be integrated from the outset.

"Strategy is not just about generating the right concept, but making it happen," says Mr Bürkner of BCG. "Everyone recognises this, but the question is how best to do it. What has developed recently is a greater focus on 'enablement', ensuring that the organisation has the capability to implement the strategy."

At the other end of the rope are firms that come to strategy from a more operational base. "The strategy process has changed," says Alastair Rimmer, global head of strategy at PwC. "It's more pragmatic: clients are more likely to ask us to fix problems rather than just develop plans."

> 'It's more pragmatic: clients are more likely to ask us to fix problems rather than just develop plans'

There is a lot of money riding on this. For strategy firms it is an opportunity to position themselves for larger projects at a time when clients increasingly want consultants to work on specific, specialised questions rather than broader reviews.

For operational firms it is a chance to develop stronger relationships with the very top of an organisation. Moreover, the game is complicated by the sheer number of firms – small and large – currently claiming that what makes them distinctive is their ability to execute strategy.

Winning the game will depend on four factors. First is the scale argument – that "implementation" extends all the way to technology strategy and that a multidisciplinary approach is essential. "My role is the chief joiner-upper," says Mr Spelman of Accenture, "to ensure we can bring different perspectives to bear."

But for Bain, the crucial factor is having individuals capable of combining strategy and practice. "It's dangerous to think that this needs different skills," says Mr Ellis. "We have spent 40 years successfully building a culture that integrates the two."

A third, more subtle, factor is the company's position on the rope: is it at the very end or somewhere nearer the middle? Klaus Kremers, a restructuring partner at Roland Berger, argues that the firm's experience in restructuring is what gives it a pragmatic edge when it comes to strategy. "You need consultants who are capable of engaging people outside a company's head office" he says.

Last, but by no means least, is credibility with clients. The brand of the top firms remains a huge barrier to entry for those coming from the more operational end of the industry.

At the moment, the tug-of-war is reasonably evenly matched, so much so that it could be argued that an stalemate has been reached. Something needs to happen to change this.

"We expect second-tier firms to be under the greatest pressure," says Tony Poulter, global head of consulting at PwC. "It's inevitable that convergence between strategy and implementation will lead to consolidation."

At Booz, Per-Ola Karlsson, managing director of Europe, expects that the well-recognised difficulties in merging consulting firms will be a deterrent. "We're more likely to see small teams and individuals moving between firms and a greater share of the work concentrated in a smaller number of players," he says.

What is certain is that the game cannot go on for much longer: one side will have to make a decisive move soon.

Big sporting events mean game on for sponsorship tenders

Thinking big: complex infrastructure projects such as the London 2012 venues are a shop window for consultants' services Getty

London 2012

The tens of millions invested can earn a hefty payback for a consultancy brand, says Rod Newing

Management consultants have a long association with leading sporting events, both as sponsors and contractors. But they have their sights set on extending their involvement from organising committees to other stakeholders.

Sponsorship of a large sporting event can cost tens of millions of pounds, usually comprising a mixture of cash, reduced rates, employee secondments and consultancy hours. But it generates big benefits in market positioning, branding, employee engagement, recruitment and customer relationships.

Rob Price, managing partner at Atos Consulting. says: "It is a global market that requires mobility and insight into the impact of different approaches, cultures and politics."

He adds: "Big sports events often occur where similar events have not been hosted before. Consultants can provide global continuity and insight. They have a key role to play at the outset of the project, to define a brief that will meet the needs of the [athletes], spectators, media and organisers."

Staging such an event is, however, a complex process, involving a number of stakeholders beyond the organising committee, such as city and national governments and agencies and infrastructure organisations – and all of them need advice.

Tendering is competitive, but the professional services sponsor is well positioned to win the work.

Atos Origin sponsors the International Olympic Committee on an continuing basis, through systems integration and operations management. This put the firm in a strong position to win a tender to define an information technology strategy for CLM, the consortium managing the construction of the London 2012 games venues on behalf of the Olympic Delivery Authority.

> 'It is a global market that requires insight into different approaches, cultures and politics'

Deloitte is the official professional services provider to London 2012, a tier that typically contributes £20m-£30m ($32m-$48m). The firm expects to provide 750,000 hours and 136 secondments, including supplying the financial director.

This follows the firm's sponsorship of the Vancouver Winter Olympics and the Singapore Youth Olympics in 2010, and numerous World Cups and other events around the world.

Deloitte has won 2012-related contracts with the British Olympic Association, the Greater London Authority, the Government Olympic Executive, the Olympic Park Legacy Company and others.

"We will not recoup the value of sponsorship in direct sales to other Olympic-related organisations," says Tim Parr, who leads Deloitte's UK capital and infrastructure programme team. "However, it is only scratching the surface of the value of the sponsorship in the broader marketplace."

Deloitte is aiming at large complex infrastructure programmes. Mr Parr says the skills required to advise on events such as the Olympics are the same as for rail systems or power generation. These projects are characterised by tens of billions of pounds in expenditure and a well presented business case, involving financial, feasibility and strategy work; stakeholder issues; legacy priorities; and establishing purpose-built delivery organisations.

By contrast, Ernst & Young is sponsoring the 2014 Winter Olympics in Sochi, Russia, the 2014 Commonwealth Games in Glasgow and the 2016 Rio de Janeiro Olympic Games.

The firm has worked on the 1988 Olympics in Seoul, the 1996 Games in Atlanta, the 2007 Pan American Games in Rio and with the London ODA.

These are all part of E&Y's wider sponsorship programme, which includes arts sponsorship, the Item Club economic forecasting group and Entrepreneur of the Year competitions in 54 countries. "They must all link together," says Sam Burns, the firm's marketing director.

KPMG is avoiding the sponsorship approach, targeting commercial work outside the sponsor's contract, such as government and infrastructure assignments. These include venues, infrastructure, security, risk management and financial support.

"Tight deadlines can result in significant risks of cost overruns, performance challenges, reputational damage and missed legacy opportunities," says Joel Finlay, a global sports and events consultant at KPMG.

"Consultants can provide immense value to governments as they progress through the 10-year journey from bidding to the awarding of games, planning, infrastructure delivery and operations to legacy."

Pascal Wattiaux was the first director of technology at the International Olympic Committee. He is now a specialist major games consultant and has worked with Albertville (host of the 1992 Winter Olympics), London and Rio. He says that compared with football's World Cups or European championships, the Olympic Games leave a lot more responsibility to the local organising committee, so it is more like a franchise.

There are good and not so good experiences at each Olympic Games, but they are not staged frequently enough to produce best practices.

Consultants with experience of previous Games can bring understanding and experience to a local team that is working on the Games for the first time.

However, the local organising committee must make sure they do not just copy previous practice. The world is changing rapidly, local conditions differ and operations can always be improved.

"Consultants must demonstrate a delicate balance between experience and a determination to rethink, redesign and challenge rapidly and efficiently," says Mr Wattiaux.

"Many, but not all, experienced consultants like to impose their tried and tested solutions. At the same time many, but not all, organising committees start by recruiting local staff, who don't have operational experience of past Games, and look to consultants for a quick fix based on previous experience."

It is clear that the different firms have very different approaches to large sporting events. But, as well as making money, such work is a good way to impress their other clients.

"The Olympics is a huge event people love to hear about," says Mr Parr of Deloitte. "I have no doubt our support for big infrastructure programmes globally over the next few years will enormously exceed our investment in London 2012.

Consultants involved in the Olympics will be doing a lot of travelling."

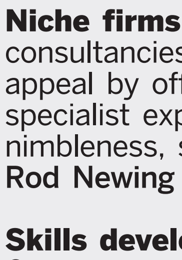
More on FT.com

Pro bono work These projects enable consultants to work with very different clients, writes **Sarah Murray**

Niche firms Smaller consultancies claim to appeal by offering specialist expertise and nimbleness, says **Rod Newing**

Skills development Creativity is one of several key qualities that good consultants need, finds **Jane Bird**

Opinion Alan Leaman, chief executive of the UK's MCA, on why the industry needs to promote itself round the world



'Only business can effect needed transformation'

Sustainability

Firms must work with each other and clients to drive change, writes Rod Newing

Building a sustainable future requires management consultancies to move beyond energy-efficiency. They must use their transformational skills to change the way society operates.

"Sustainability is the third disruptive change to hit consulting in the past 20 years, after computerisation and globalisation," says Peter Lacy, managing director for sustainability services at Accenture. "It will become part of everything we do. Just as we no longer talk of 'ecommerce', in 10 years we may not be using the word 'sustainability'."

The global market in 2010 was worth $1bn, according to Sourceforconsulting.com, which provides information about the market for management consulting. This consists of strategy and planning (33 per cent), carbon measurement (32 per cent), renewable energy (10 per cent), energy efficiency (20 per cent) and eradicating waste (5 per cent).

This analysis helps to answer the question of whether sustainability projects exist in their own right or are part of every project. The first three areas are pure-play sustainability projects, involving establishing the current situation, assessing alternatives and establishing what actions should be taken. However, energy efficiency and eradicating waste are inextricably linked to efficiency improvement and cost reduction.

"Embedding sustainability programmes that deliver both cost savings and efficiencies is the holy grail," says Andrew Underwood, head of supply chain management at KPMG.

"However, economic volatility has put pressure on any initiative that doesn't have a quick payback. Thorough sustainability initiatives invariably require a longer bedding-in period, so many of these have been put on hold until budgets ease."

The market is being driven by the large corporations. David Metcalfe, chief executive of Verdantix, a firm that carries out sustainable business analysis, says that those with revenues above $1bn account for 95 per cent of the market. However, there is "very little ambition" below £10bn, where the focus is on efficiency.

Fiona Czerniawska, joint managing director of Sourceforconsulting.com, forecasts that all areas of the market will grow, but strategy and planning and measurement will shrink after two or three years, once organisations have worked out where they are and where to go.

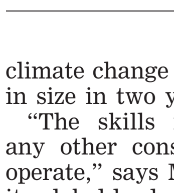
Renewable energy will grow for a long time and, with energy prices remaining high, energy efficiency will also continue to grow, she says. However, the fastest expanding area of the market will be waste reduction, which will increase from 5 per cent to 50 per cent.

"Over the next 10 years, we will see a gradual switch from strategy and planning to implementation," she says. It takes a long time to work out how bad the carbon footprint is and what measures can be taken to reduce it, she adds.

Edmond Cunningham, an expert in greening businesses at PA Consulting Group, says pure sustainability consulting ranges from risk mitigation to enhancing positions in sustainability league tables. IBM Global Business Services is finding increasing interest in supplier sustainability, while Ernst & Young's sustainability projects include reducing risk; tapping new markets and product channels; and acquisition and investment strategies.

Accenture is helping to remodel businesses, so they can tap new markets created by the sustainability agenda. Its research shows that 81 per cent of chief executives plan to go after the "sustainability growth agenda" in the next five years.

The explosion in sustainability consulting requires large numbers of consultants from a relatively small pool of experience. PwC's sustainability and climate change team has trebled in size in two years.



Steve Lang at E&Y sees need for something different to stand out from the crowd

"The skills range is unlike any other consulting team we operate," says Malcolm Preston, its global leader. "We have environmental and climate scientists, economists, financiers and specialists in insurance, reporting, behavioural change, supply chain, international development, agriculture, water and carbon trading."

Steve Lang, head of sustainability and clean technology at E&Y, sees the significant growth in the sector as challenging, with increased complexity, more competition and client needs constantly changing.

"Everyone is trying to get into the market, which can be confusing," he says. "It is a good time to be a sustainability consultant, but you need to work hard and bring something different to stand out from the crowd."

According to Verdantix's latest Green Quadrant Sustainability Business Consulting report, suppliers include strategy, management and environmental consultants, engineering houses, technology services firms, non-governmental organisations, university research teams and niche sustainability, carbon and energy management businesses.

Deloitte, E&Y, KPMG and PwC lead the market, with Accenture, Arup, Camco, McKinsey and WSP Environment & Energy also well positioned.

We cannot save the human race from climate change just by being more efficient, however. Society must develop new, more sustainable ways of living and doing business, involving huge transformational change.

"Transformation is where consultants can add the most value," says Stuart McLachlan, global managing director of WSP Environment & Energy.

"We need to redesign our cities, buildings, infrastructure, products and processes. The diversity of the work to be undertaken precludes 'one-stop-shop' consultancy, neither could any client have all the skills in-house. It will require a new culture of collaboration between consultants, and with clients."

Governments, consumers and environmentalists lack the money to drive the necessary change, but business is taking over the sustainability agenda.

Mr Metcalfe at Verdantix says only the large corporations – such as IBM's Smarter Planet, GE's ecomagination and Hitachi's Social Innovation – have the money, innovation skills and long-term perspective.

"The role of management consultants is really important at present," he says, "because they have the envisioning skills of how society should function in a more sustainable way and the skills to think about how the market will evolve in five, 10 and 15 years.

"These very big corporations need the skillset of the strategy consultants and the energy and environment expertise of the technical consultants."

Firms look beyond Europe as cuts take toll

Public sector

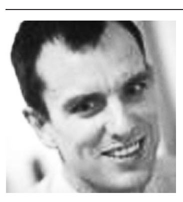
Fiona Czerniawska finds teams are being reassigned amid curbs on spending at home

The last time Stewart Johns pitched for some central government consulting work he found himself competing against hundreds of other firms. As the head of Boxwood's public services practice, he has now decided it is worth putting in a bid only if he knows the organisation and people involved beforehand.

Boxwood is one of the lucky ones. Smaller firms specialising in the UK public sector have been hard hit, with some going out of business entirely as the government cut spending on consultants to pre-2004 levels.

The picture since April this year is more mixed. "Central government departments are clearly purchasing less consulting," says Keith Leslie, one of the leaders of Deloitte's public sector practice in the UK, "but there is substantial work in specialist services such as financial advice, property, organisation design and governance."

But, with no evidence of more widespread demand, consultancies have been reassigning their public sector teams. Some of Accenture's consultants are now working in Mexico and South Africa.



'Government is losing good people and may need help,' says Steve Bannister of Turner & Townsend

"We're taking expertise from the mature markets to emerging ones, many of which are now looking to develop world-class public services," says Sean Shine, Accenture's managing director for health & public service in Europe, Africa and Latin America.

Big firms have also been able to move their consultants on to private sector projects, avoiding widespread redundancies – a genuine fear this time last year. Kru Desai, head of public sector consulting at KPMG, says: "One of the benefits of scale is that we can rebalance our business, exploiting the economic cycles in different parts of the economy."

There are good reasons to believe that the UK public sector's use of consultants will rise, albeit slowly. Redundancy programmes in Whitehall may result in a shortage of the skills needed to deliver further savings in the future.

"Government departments and local authorities are losing good people," says Steve Bannister, head of UK consulting services at Turner & Townsend. "They're likely to need outside help, especially when it comes to more sophisticated cost-reduction programmes."

Dave Allen, consulting clients and markets leader at PwC, says: "Ministers may get frustrated with the pace of change and how to get economic growth moving again."

Both are gaps that consultants may be asked to fill. Against this is fear. The consensus in the consulting industry is that the reputation of consultants, at least in central government, has sunk so low that civil servants prefer to miss targets rather than incur criticism for using consultants.

"We don't expect any immediate increase in demand," says Simon Rilot at Capita Consulting. "The industry needs to develop a new view of what consulting is."

In the UK, all eyes are turned to the government's new framework for buying consulting services, which is due to come into effect in the spring. "This is an opportunity to put the relationship between the public sector and the consulting industry on to a healthier footing," says Alan Leaman, chief executive of the Management Consultancies Association.

Details have not yet been published, but the larger firms are hoping it will encourage greater use of outcome-based payment methods. "Government clients will be more focused on service delivery, rather than advice," predicts Mr Shine.

That is not much consolation to Mr Johns at Boxwood, who points out that smaller firms do not have the strength of balance sheet to be able to take on unlimited risk-reward work, but equally find it hard to compete as rates fall.

"Firms such as Boxwood have a greater proportion of senior consultants. Big firms can use junior staff to keep their average daily rate down," he says.

In fact, the new arrangements, which will come into effect in the middle of 2012, will be two-pronged: a new framework for higher-value projects and a new government emarketplace.

The Cabinet Office says: "This change will reduce costs and increase value for money, while opening up the supply market, especially for SMEs. There will be a number of aspects to the framework that make the bidding process easier for SMEs and the whole process less resource-intensive."

All central government departments have signed up to use both the new framework and the emarketplace. The Cabinet Office says that there is a "real acceptance that in order to increase value for money and reduce costs, use of these channels is essential". The newly-formed Government Procurement Service will also publish spending compliance reports that will increase transparency and accountability, it claims.

One thing is clear. The new framework and emarketplace are likely to have a big impact on the shape of the consulting industry in the UK – and this will follow the pattern set in other European countries.

"It will also force consulting firms to decide whether or not they're in public sector consulting or not," says Colm Reilly, head of PA Consulting Group's government practice.

"Those that choose to stay in this market will also have to give some thought to how they resource government work, whether they'll have big internal teams or choose to work with other, more specialised firms and build solutions as they are needed."

In the hiring line: consultancies need to know when to fly in their own experts and when to recruit and develop local talent Alamy

Globalisation produces fresh sources of revenue

Emerging markets

Shifting patterns of demand will benefit larger firms, reports **Gill Plimmer**

As markets in the developed world become saturated, the big consultancy firms have been expanding their global footprint.

But whereas 90 per cent of this work used to involve helping multinationals push into new territories, that now accounts for less than half of time spent.

These days, consultants are equally likely to be helping local clients expand – both in their domestic market and internationally – as companies from the growth markets of Brazil, India and China, for example, seek to expand their horizons.

"There is still demand to help western clients move into the main emerging markets," says Tony Poulter, partner and global head of consulting at PwC, "but the real money is coming from helping companies in emerging markets grow."

Chinese banks, Brazilian oil companies and Middle Eastern sovereign wealth funds are sought-after clients for all the big management consultancies, as corporations and sovereign wealth funds increase their investments overseas.

In PwC's latest financial year, the consulting business globally grew at 20 per cent, but emerging markets grew at twice that rate, Mr Poulter says. This gives an indication of a wider trend for the big consultancy groups.

The push into emerging markets started a decade ago, but has gathered momentum in the past five years.

Although much of the work is related to transactions outside their local markets, a number of Chinese, Middle Eastern and Indian multinationals also want support on technology infrastructure, recruitment, corporate governance and risk management.

"Some clients in China, the Middle East and India want to be sure they are adopting world-class standards," says Mr Poulter. "This has increased demand from national champions, even for domestic work."

And, with India and China home to an ever-growing middle class, there is also interest in how to service them, he adds. "[Companies] want to know what kind of products to make for them, how to market to them and how to service them," he says.

According to Sourceforconsulting.com, an independent analyst, the market across Europe, the Middle East and India was worth just under £25bn ($40bn) in 2010. India accounted for just over £1bn of this, the Middle East for £850m and eastern Europe and Russia for about £1.25bn.

Brazil, India, Russia and China have seen the fastest growth, but Africa, Mexico, Turkey and Indonesia have also been hot spots, as has the Middle East. The demand from emerging markets has come as a relief to consultancy firms, which had suffered as companies and governments tightened their belts during the financial crisis.

> As work becomes increasingly international, smaller, domestic outfits will be left behind

But this merging market business could see smaller outfits squeezed out, as those without international experience and talent are left behind.

"Demand for consulting in emerging markets will eventually produce a two-speed consulting industry in the west," says Fiona Czerniawska, joint managing director of Sourceforconsulting.com. "Firms able to provide the international experience that clients are looking for will thrive, leaving smaller, domestic players behind."

But Alexei Kredisov, co-leader of the emerging markets centre at Ernst & Young, says emerging markets are tempting, but managing expansion can be difficult. He says consultancies need to decide where to draw the line between flying experts in from around the world and developing locally hired talent, while at the same time maintaining consistency.

They must also understand local buying patterns and customs and ways of doing business. "Their purchasing style will be different, they may attach different weight to the price-quality ratio and they may not be as sophisticated as the buyer on contracting terms," says Mr Kredisov.

Recruiting the right people to manage your business is essential to this, he adds. His tips include moving some of the best talent from higher-fee western companies to lower-fee emerging businesses to learn how to operate and establish a reputation, even if these moves hurt current earnings.

"You need to have a proper blend of talent from mature and emerging markets, so that both learn from and complement each other," he adds.

Mr Poulter agrees. "It almost ceases to be sensible to talk about emerging markets," he says. "We're looking for Chinese graduates in European and US business schools. We want generation Y. People aren't categorised easily any more."

Ways to profit from 'new normal'

Continued from Page 1

consulting lines, may seem to have an edge, but as client demands become more complex, some believe the one-stop-shop firms will increasingly find themselves in partnership with specialists.

One area where change is slower coming, however, is the way in which consultancies are able to bill for their services. In spite of many firms' desire to use a value-based fee approach (where firms are paid on the basis of the value created), clients are reluctant to move from more traditional billing models.

Consultants say defining what "value" looks like is one obstacle. Even if the trend towards value-based billing accelerates, only a few firms are big enough to put "skin in the game", in the words of one, and take the risk of failing to pick up a fee at all.

Looking ahead, consultants expect 2011-12 to see continued strength in demand from sectors that rebounded from the depths of 2008, particularly those areas, such as financial services or healthcare, where a strong or changing regulatory framework drives business.

Sander van 't Noordende, group chief executive of Accenture's management consulting business, picks out technology and emerging markets as the two biggest drivers of demand.

Companies are now grappling with how to apply new technologies in the front office, as well as the back, he says, and asking consultants how best to do it.

In markets such as China, India or Brazil, demand is increasingly "multidirectional", coming from local companies seeking to expand abroad, rather than just multinationals seeking a foothold in a fast-growing region.

The consultancy offering itself goes both ways. Accenture has 70,000 employees in India – its largest country – but at the same time, according to Paul Friga, professor at the University of North Carolina's Kenan-Flagler Business School, India-based consultancy firms such as Tata, Infosys or Wipro are "making strong moves into the US, leveraging a new model of global client assistance".

As for Mr Barnier's commission proposals, unveiled in September, their radical nature came as a shock. If pursued, they may offer opportunities for consultants outside the big four [PwC, KPMG, Ernst & Young and Deloitte] to poach staff. But they may also liberate some of the big audit firms to hunt for customers they are currently unable to approach.

Overall, the proposals may not change the competitive shape of European consulting much. "With audit, or without audit, these [big four] would be extremely powerful and high-quality consulting firms," comments the MCA's Mr Leaman.

The bigger threat in Europe comes from the continuing macroeconomic crisis.

If there is doom and gloom in the industry, it is, according to insiders, nothing like the sentiment just before the Lehman Brothers collapse in 2008.

Consulting firms are clearly now on the front foot. But then, as one consultant points out, "it was four months *after* Lehman that things got really difficult".

Crisis brings opportunities to grow and add value

Financial services

Firms that can add to efficiency will succeed, says **Ross Tieman**

Not every storm produces a rainbow, but for consultants the crock of gold created by the financial tempest continues to spill over.

Demand for advice from banks alone lifted income of UK-based consultants 35 per cent last year to £721m ($1.15bn), almost matching its fastest-ever 40 per cent growth in 2006, according to the Management Consultancies Association.

According to a June report from Sourceforconsulting.com focused on midsized and large consulting firms active in Europe, the Middle East, India and Africa, financial services provided €7bn ($9.5bn) of consulting revenues across Europe in 2010, 28 per cent of all consulting work in the region. Banking alone was 19 per cent, or €4.75bn. Drivers of demand growth remain strong.

Industry consolidation and corporate reshaping arising from the financial crisis are only part of the story, however.

Debt crisis initiatives are adding to the regulatory projects required under Basel III, Solvency II, international financial reporting standards and Europe's Retail Distribution Review.

Already, as Kevin O'Reilly, partner and head of financial services, consulting, at Deloitte, says, "there is a risk the regulatory agenda is going to demand more than banks can afford".

In the battle for contracts, the ability to add to corporate efficiency by providing risk analytics, data, or business efficiency has become decisive.

David Field, executive director of Rule Financial, which provides business and information technology consultancy to investment banks in London and New York, concurs. "Banks are looking to combine regulatory compliance initiatives with innovation drives," he says.

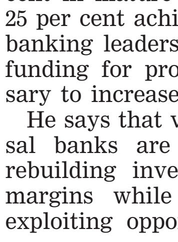
The next wave will test the financial consulting industry as never before. In Europe, rescuing the euro has added to capital needs. In the US, says a study by Alvarez & Marsal, the restructuring specialists, a third of regional banks must merge, while banking in sub-Saharan Africa needs transformation and expansion, according to Roland Berger, a German strategy consultancy.

Tomorrow's financial consultancy challenges extend beyond banking. The worldwide insurance industry is still growing and attracting new contenders seeking to be more customer-focused. "Working with these and banking's new entrants provides a fresh category of work, with different project characteristics, for consultants," says Mr O'Reilly.

For, as Rollo Burgess, financial services expert at PA Consulting Group, points out, many universal banks find themselves at a strategic crossroads. Their managers are often at full stretch dealing with a flood of regulations targeting their investment banking arms. That leaves their retail banking sides vulnerable to new entrants seizing the opportunities afforded by technological innovations such as social networking.

Likhit Wagle, global banking and financial markets leader at IBM Global Business Services, says that initiatives to reduce retail banking complexity that cut cost-income ratios to 35 per cent in mature markets, or the 25 per cent achieved by Chinese banking leaders, will create the funding for programmes necessary to increase revenues.

He says that vanguard universal banks are wrestling with rebuilding investment banking margins while simultaneously exploiting opportunities to leverage changing consumer technology to improve returns in retail banking.



David Field: banks want to improve innovation at the same time as regulatory compliance

Sushil Saluja, managing director of Accenture's financial services practice in the UK and Ireland, observes: "The economic uncertainty has polarised financial services firms into those that are using it to gain competitive advantage and those that have to focus on day-to-day business management to survive."

Future consultancy challenges also cross borders to an unprecedented degree. Navigant Consulting highlights the international reach of the Obama administration's Foreign Account Tax Compliance Act, which will require foreign banks hand over information about Americans that have accounts with them. The compliance cost to European institutions alone could total billions of euros.

Most advisory firms find solutions in a combination of structural reform and information technology. Accenture says it helped a leading investment bank shave $2bn from an $18bn cost base by redrawing departmental boundaries, sharing cost bases and moving some jobs to cheaper locations. But typically, it says, the task is to redesign the process and then implement the necessary technology.

As Mr Burgess at PA Consulting emphasises, it is difficult to foresee how the world of financial consulting will evolve over the next few years. His best guess is that in traded financial markets, banks' managers will become increasingly able to design and implement reform. Where they need extra help with implementation, consultants will be under intense competitive pressure, particularly on price.

At the retail end, he believes advisers will need to focus on innovative answers that increase revenues to bolster customer engagement. This need is noticeable in hiring trends. PA Consulting, a niche player, is recruiting heavily, while Ernst & Young increased its specialist team by 40 per cent last year.

IBM's Mr Wagle sees five essential success factors for financial services consultants over the next five years.

These are: industry knowledge and deep banking domain expertise will become more critical; previous experience will be necessary to reassure clients that their projects will succeed; consultants will have to support implementation; clients will be looking for outcome-based fee structures that reflect achievement of key performance indicators; and globalising clients will be looking for global support.

But that leaves an unstated conclusion: consultants that do not fit the bill might usefully invest strategic thinking in their own business prospects.

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International experience is highly prized

Sharmila Devi finds the sector seeking new skills and fighting a war for talent as it adjusts to difficult economic conditions

Amid the recent dire economic news, management consultancies have bucked some gloomy predictions to achieve a brisk growth rate so far this year.

But many remain cautious about what might lie ahead.

The sector employs an estimated 40,000 people in the UK in a range of large professional services firms and smaller, specialised boutiques, many of which report that they are currently working at full capacity and facing a "war for talent", providing opportunities for the right job candidates.

For management consultancies, the "perfect candidate would have a combination of industry and consulting experience", with "international mobility and ability to serve clients around the world", says Gerard Gallagher, markets leader in Ernst & Young's advisory services arm.

An example of the kind of specialised knowledge that he seeks includes expertise on supply chains in North Africa, as management consultants look abroad to offset sluggish growth in Europe and the US.

Alan Leaman, chief executive of the UK's Management Consultancies Association, says many of his organisation's members started looking abroad when the recession hit: "Four years ago, 10 per cent were active abroad and now 50 per cent are abroad," he says. "The Middle East, Latin America and increasingly India and China are building up."

It means international experience is highly prized by firms when recruiting: "Our business has become much more global this year than in the last three years," agrees Mr Gallagher.

You're hired: the large firms are recruiting graduates – but the mood is cautious Alamy

However, one challenge for the big players is that international clients are increasingly looking to have consultants service them locally and "not fly in from London", he says.

Management consultancy firms are making such changes in response to the pain they suffered in 2009, when the industry contracted by 2 per cent in the first six months of that year. But in the first half of this year they saw 11 per cent growth – up from 6 per cent in the same period last year, according to the MCA, which has 50 members, representing 70 per cent of the UK sector. Paradoxically, it is the troubled state of the global economy that is maintaining demand for consultants' services.

"As economic change bites, more organisations will see the real value of looking outside their own ranks for the highest quality advice. There is clearly discussion about how much they can afford and about return on investment but they will need help to manage and exploit change," says Mr Leaman.

"As the pace of change relentlessly increases, even in depressed times, taking advantage of this makes sense for companies," he says.

The MCA reports more work for consultants in financial services and manufacturing, with 71 per cent and 63 per cent of consulting firms reporting an increase respectively, says the MCA. It also reports growth in demand for consultancy in distribution, retail and services.

Just over half of the MCA's member firms were running at full capacity, suggesting demand for consultants remains steady, while 81 per cent of them expected an increase in revenue over the next six months. But even the most optimistic are cautious about the nature of the jobs that will be available in future.

Jonathan Chocqueel-Mangan, co-founder and managing director of Tyler Mangan, a boutique consultancy whose clients have included Virgin, Lloyds Development Capital and The National Trust, is buoyed by growth at his own organisation. But he believes some smaller firms will not survive amid further consolidation in the sector.

Talent remains "incredibly rare", he says, and his business is constantly seeking experienced professionals with industry and consulting experience able to service specialised clients. "As a niche player, we can't compromise."

He says working in consultancy is even more attractive in difficult times and he welcomes the challenges posed by companies having to justify their need for management advice against tougher criteria, including cost. "It's intellectually even more stimulating now. You have to solve intellectual problems as well as make a tangible difference.

"Clients are becoming much more informed, tougher, harder and demanding," he says. "Organisations are less likely to trigger large consultancy engagements with 30 to 40 people from a big firm when niche players like us can come in with a team of three senior people. The business model is changing and the days of one senior partner, five partners and 10 consultants working on one project are over."

Larger firms do seem to be adapting. Ernst & Young, for example, enjoyed a record quarter in the three months to September, says Mr Gallagher.

"The best businesses are getting on with their executive strategies. We're still making partners and upping recruitment in specialist areas," he says.

This year, Ernst & Young hired 880 graduates, up from 650 last year. Of those, 188 entered the firm's advisory business, up from 123 last year. However, next year's target is 155 because of a slowing of movement within the profession.

"The attrition rate is low," says Mr Gallagher. "People are nervous."

He predicts greater collaboration between the big consultancies and niche players on individual projects. "I'm seeing fantastic boutiques often partnering up. The need for specialisation lends itself to niche players," he argues. "There is also consolidation at the bigger clients, who are reducing consultants across their procurement departments."

But he believes the bigger firms are a more attractive long-term proposition for candidates because their larger budgets give them greater flexibility when servicing clients: "Clients are having a discussion around value-based billing, saying 'how do I pay based on outcomes, not hours spent,' so firms carry more risk.

"This provides bias to the bigger guys because these clients can stay on the balance sheet while waiting for results."

On the other hand, Mr Chocqueel-Mangan argues that the boutique consultancy businesses offer experienced professionals a better balance and quality of life – although it is difficult getting that message across.

"Hiring out of the bigger firms is not very easy," he says. "The security of knowing exactly when your next pay cheque and project is coming is a big thing," he says. "But for the right person, a niche firm is really exciting."

He adds: "There won't be a return to the good old days, not anywhere. The days of a $5bn deal generating $200m in consulting fees won't ever come back.

"But it's an exciting time for consultants because if things are harder you have to do better work."

Mr Leaman agrees that many consultants are proceeding with caution when considering job moves. "The main thing prompting people to move on is higher salaries, because we've been through a period of constraint on rewards. But real talent can break that," he says.

"Above and beyond rewards, people who want to move are looking at the culture of different firms, the variety of clients, and how they can develop their own career interests."

Happy to get the job – but still happy with the work?

The lifestyle

Natasha Stidder looks at career growth and asks whether roles live up to their promise

Management consultancy is seen as one of the "sexiest" on the graduate milk round, offering a heady mix of travel, money and respect. A job in consultancy appears to open doors to all these things, pretty much from the start.

But three or four years into the job, are the young bright stars who fought their way into the profession happy with their lot?

It seems, broadly, that they are. Research from the Management Consultancies Association has found high levels of job satisfaction in young consultants. Its survey questioned the attitudes, views and aspirations of those with less than five years experience and two thirds classed their job satisfaction as "good" or "very good", while high numbers reported being pleased with the levels of challenge and progression.

Supporting this research, Laura Wilson, director of the management consultancy division at recruiter Marks Sattin, believes graduates are aware of the work they are getting into, and will have demonstrated drive and excellence. It is no surprise that young consultants lap up the challenges each project throws their way.

"Consultancies might not pay as much as investment banks, but you are surrounded by the brightest," says Ms Wilson. "People are more cerebral and so it might be perceived as the intellectual choice rather than the financial one."

James Callendar, managing director of recruiter Freshminds, explains that while competing with countless talented graduates can be tough, a consultancy role will always look good on a CV: "It is one of the best places to start your career. It gives you a wide skillset and helps you to analyse a company and understand markets. It terms of an introduction to business, it's invaluable."

But there can be downsides: many young management consultants struggle with the hours and unpredictable nature of the job. While a strategy consultant is more likely to be able to carry out elements of their work from the office, an implementation consultant will be expected to work at a client's site.

This often means spending four nights a week away from home, and living out of a suitcase for the duration of a project. With an average implementation project taking between six months and a year, it is a big commitment.

While this lifestyle is no secret, the MCA's research finds it is the main source of concern among young consultants. Female consultants felt this acutely, with 63 per cent of those intending to leave the profession citing poor work-life balance as the main reason.

However, Ms Wilson says that while the first few years "can be pretty grim", it is part of the bargain all young consultants enter into when joining the profession, and she has not noticed an increase in turnover – it is not a make or break issue for most.

Young consultants also have to be aware that they could find themselves waiting for their next project, making it important to establish a clear career direction.

"Consultants are high-achievers and have their eyes on the long-term goal," says Ms Wilson. "So they have to manipulate their CV, ensuring they get the projects that will help achieve this."

Edward Robinson is a junior consultant at Boston Consulting Group. After five years in consulting, he is now ready to specialise, while relishing the range of work: "For me, the best part remains the variety of the projects and the opportunities to work with business leaders all over the world. I don't think you can over-state the importance of working with intelligent and motivated people."

'This often means spending four nights a week living out of a suitcase'

But Mr Callendar warns that while there is initially a lot of challenge, consultants also find the learning curve flattens quickly, leaving some jaded: "Your first three years will probably be spent looking at a spreadsheet rather than into the eyes of a chief executive." As a result, recruiters tend to find consultants looking for a move two or three years into their career.

This might follow one of three paths – stay in consulting with the aim of making partner; setting up their own consultancy; or going into industry.

Calum Mackenzie entered consultancy with the aim of spending between five and 10 years learning the ropes and then using those skills in industry. But 18 months in, he lost momentum in his specialist area. He also realised the typical consultancy career path was not as straightforward as he expected: "Every consultancy wants you to pursue an ideal route, but work gets won and lost very quickly, so it can be much more chaotic than they promise you," he explains. "I didn't want to work hard to get to that point in an industry that I wasn't entirely comfortable working in."

He decided to leave after three years, sooner than he had expected. But he says the experience gained has been integral to his success as a senior propositions manager at BT: "What I lack in telecoms I make up for in the proof that I can deliver major programmes in the private and public sectors. There is no doubt that my short time in consulting helped me catch up with those who have a lot more experience than me."

Fellow consultant Tom Kimberly spent a few years working in US politics before moving to consultancy and finding it offered clarity and focus around issues that can be ambiguous and complex. Aware of the industry's reputation, he knew there would be sacrifices. But the opportunity to work on unique projects with exceptional people was worth it.

"There is no question it lived up to my expectations," he says. "The trust that partners build up in their clients meant we were given the opportunity to affect almost all the things they worked on."

But after a few years the volatility of the role began to take its toll: "Almost from month to month you didn't quite know what your life was going to look like," he says. "When nothing is going right, the team is working hard, and your head is misfiring because it's 1am, you just have to call it a day. But you'll be back in at 7am to start it all over again."

Now, as manager of strategy and mergers and acquisitions at Barclays Bank, even when the going gets tough, he is still able to commit to a social life.

Mr Kimberly says the broad skillset consultancy has given him will be put to excellent use: "That's one of the things about consulting – I feel capable of going down any of several routes and succeeding," he says.

More on jobs

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